Now test yourself answers

Chapter 1

1 (a) Apple's iPhone: design
(b) Heinz Tomato Ketchup: quality of product and strength of brand image
(c) John Lewis: staff knowledge and customer service
(d) Cadbury's chocolate: brand image

Chapter 2

1 Two from:
(i) More potential customers
(ii) Opportunity for economies of scale
(iii) Can use mass media to advertise

2 Two from:
(i) Can charge higher prices
(ii) Higher profit margins
(iii) Less expensive to enter

3 The PESTLE factors: political, economic, social, technological, legal, environmental

4 (i) Lower prices
(ii) Better quality
(iii) More innovation

5 Market research

6 Qualitative

7 Secondary

8 Primary

9 Quantitative

10 Product-orientated

11 (i) Small sample size
(ii) Poorly selected sample

12 (i) Websites gathering information
(ii) Social media gathering information
(iii) Databases to help analyse data

13 (i) Products and services can be designed to suit specific customers
(ii) Meeting customers' needs precisely allows a higher price to be charged
(iii) Promotional activity is easier to target

14 Gaps in a market or the ideal positioning for a product

15 (i) Lowest cost
(ii) Differentiation

16 (i) Aldi and Lidl have taken market share from Tesco.
(ii) Aldi and Lidl have pushed value for money further up the agenda for many customers — encouraging Tesco to respond with price-match-type promotions.
(iii) Aldi and Lidl have offered no-frills customer service, which has highlighted to Tesco the need to increase the quality of its customer service in order to stand out.

17 (a) iPhone: design and functions
(b) Yorkie: chunkiest bar on the market
(c) Nando's: trendiest among a certain age group

18 Efficiency is likely to mean lowest cost, meaning the firm can charge lower prices than anyone else and still make a profit

19 (i) Protects firms from the actions of competitors
(ii) Allows prices to be raised without damaging demand very much

20 Successful advertising can increase consumers' perceived value of the product, often by attaching desirable images to the consumption of the product or service

Chapter 3

1 Seven from:
(i) Price
(ii) Changes in the prices of substitutes and complementary goods
(iii) Changes in consumer incomes
(iv) Fashions, tastes and preferences
(v) Advertising and branding
(vi) Demographics
(vii) External shocks
(viii) Seasonality

2 They are complementary, so demand for cars should rise

3 They are substitutes, so demand for Nikes should rise

4 (i) Arrival of a new competitor such as Costa
(ii) Major local roadworks; new parking charges

5 If costs of production rise, firms will supply less and vice versa, because increased costs of production mean less profit can be made

6 As the robot is likely to cut the costs of production, supply would increase
7 A bad harvest caused by the weather
8 (i) To encourage the supply of green energy technologies
(ii) To create jobs
9 Supply would increase
10 Commodities
11 As price rises, fewer people are willing to buy
12 As price rises, firms are willing to supply more
13 Equilibrium
14 Two from:
(i) Changes in the prices of substitutes and complementary goods
(ii) Changes in consumer incomes
(iii) Fashions, tastes and preferences
(iv) Advertising and branding
(v) Demographics
(vi) External shocks
(vii) Seasonality
15 Two from:
(i) Change in costs of production
(ii) Introduction of new technology
(iii) Change in indirect taxes
(iv) Government subsidies
(v) External shocks
16 Inelastic
17 Decreased
18 (i) Product differentiation
(ii) Availability of substitutes
(iii) Branding and brand loyalty
19 (i) Sales forecasting
(ii) Deciding pricing strategy
20 Price elasticities change regularly, making it hard to use it to help predict the future
21 +1.5%
22 –2
23 (i) Who buys the product
(ii) Whether it is an indulgence or a necessity
24 (i) Income elasticity may have changed
(ii) The economic forecasts used to estimate a change in real incomes may be wrong
25 Inferior good
26 (a) Up
(b) Down
(c) Down
(d) Up

Chapter 4

1 (i) Aesthetics
(ii) Function
(iii) Economy of manufacture
2 Firms looking to use low cost as a point of competitive advantage
3 Three from:
(i) Adds value
(ii) Can reduce manufacturing costs
(iii) Can provide a point of differentiation
(iv) Improves brand image
(v) May boost brand loyalty
4 Three from:
(i) Sustainability
(ii) Reuse
(iii) Waste minimisation
(iv) Recycling
5 Designers should design with only ethically sourced ingredients/components in mind
6 (i) Seasonal price promotions
(ii) BOGOF
7 A problem with one product may affect all products carrying the corporate brand
8 Three from:
(i) Advertising
(ii) Sponsorship
(iii) Digital media
(iv) USP
9 Digital media has allowed the spread of 'word of mouth' to become far wider and much faster
10 Consumers will only pay a high price if the new product is unique, not a copy of an existing product
11 A low-priced launch may devalue its brand in the eyes of consumers
12 Unit cost
13 Low, or certainly no higher than their main rivals
14 With nothing to differentiate the product, pricing will need to be close to rivals
15 Unit cost = 4p + 3p + 1p + (£24/600) = 12p
Add 200% mark-up = 12p + 24p = 36p selling price per bun
16 If consumers cannot find a way to buy a product, sales targets will not be achievable
17 Producers sell to wholesalers who can then sell on to a wide range of retailers, allowing producers to get their product into many smaller retailers

18 **(i)** Benefit: complete control over how its product is sold

(ii) Drawback: extra cost involved in running retail outlets

19 Small producers can now use direct channels of distribution that reach a very wide audience online via their own website or a platform such as eBay

20 **(i)** Introduction

(ii) Growth

(iii) Maturity

(iv) Decline

21 Development

22 **(i)** Understanding the needs and wants of the market

(ii) Creativity to solve problems

(iii) Finding and committing the resources (money and people)

23 **(i)** Problem child

(ii) Rising star

(iii) Cash cow

(iv) Dog

24 **(i)** Looks to the future

(ii) Is achievable

(iii) Is company-specific

25 Two from:

(i) Offers control over promotion

(ii) Gains wide distribution

(iii) Can allow a firm to influence pricing in the market

26 Two from:

(i) Allows a firm to charge higher prices

(ii) Can meet consumer needs more closely

(iii) May face less direct competition

27 While consumers make decisions based partly on emotion, business to business marketing relies simply on exactly what product can be delivered at the right price with the right level of reliability in terms of quality and timing

Chapter 5

1 Three from:

(i) Multi-skilling

(ii) Part-time and temporary working

(iii) Flexible hours and home-working

(iv) Outsourcing

(v) Zero-hours contracts

2 Cash flow will be damaged in the short term as redundancy payments are made. In the long term, with lower costs, cash flow will improve

3 Collective bargaining

4 Two from:

(i) Tailored to the company's own way of working

(ii) No need to send staff out on expensive courses

(iii) Instant advice can be given following an error

5 **(i)** A wider range of methods can be learned

(ii) Fewer distractions than at the workplace

6 Interviewer bias or prejudice may affect the outcome

7 Two from:

(i) Quicker and cheaper

(ii) Promotion opportunities could motivate staff

(iii) No need for induction training

(iv) Better knowledge of applicants

8 Two from:

(i) A wider pool of applicants

(ii) Brings in new ideas

(iii) Prevents creating a vacancy elsewhere in the business

9 Matrix

10 Flat structures have wide spans of control, forcing managers to allow subordinates to make their own decisions as they cannot closely supervise them all the time

11 Tall structures have many layers, offering plenty of scope to be moved up to the next level

12 All decision-making is kept at the very highest levels of the structure in a centralised organisation

13 **(i)** Scope to show initiative: Maslow self-actualisation or Herzberg meaningful and interesting work

(ii) Extent of delegation: Maslow esteem or Herzberg's achievement

(iii) Responsibility: Maslow esteem or Herzberg's responsibility

(iv) Receiving all information required to perform a job: Herzberg spoke of the need for direct communication as part of job enrichment and saw company policy as a hygiene factor

(v) Opportunities for promotion: Maslow's esteem needs and Herzberg's advancement

14 Taylor believed people worked to maximise their income. Therefore, people will work harder if working harder allows them to earn more money. Therefore, if a business wants an employee to work harder, they must ensure that the amount of work done is directly linked to the amount of pay the employee receives

15 This should mean that even if extra pay is earned, the firm will have more products available to sell in order to generate a higher revenue which can be used to cover higher wage costs

16 Money

17 Human relations

18 (i) Physical
 (ii) Safety
 (iii) Social
 (iv) Esteem
 (v) Self-actualisation

19 (i) Hygiene: company policy, supervision, pay, interpersonal relations, working conditions
 (ii) Motivators: achievement, recognition, meaningful, interesting work, responsibility, advancement

20 Motivation means doing something because you want to do it, perhaps finding out more about Herzberg because you are fascinated by his theory, whereas movement is doing something to achieve a reward (perhaps your parents have offered you cash for grades) or to avoid a threat (will there be a phone call home if you don't hand in your homework?)

21 (i) Piecework
 (ii) Commission
 (iii) Bonus

22 (i) Job enrichment
 (ii) Empowerment
 (iii) Delegation

23 Team-working

24 Staff who are being handed decision-making power may lack the experience necessary to make the right decisions without prior training

25 (i) Performance-related pay
 (ii) Profit-sharing
 (iii) Possibly bonuses

26 (a) Democratic (using management by objectives)
 (b) Paternalistic
 (c) Autocratic
 (d) Laissez-faire

27 With few staff, the entrepreneur, who naturally is likely to be making key decisions on what the business should be doing and how to get around problems, will be unlikely to afford to hire a manager whose focus would be on the detailed implementation of the leader's plans and ideas. Instead, one person will have to perform two significantly different functions

Chapter 6

1 (i) Noticing that a certain type of business does not exist in the local area
 (ii) Spotting local behaviour that suggests a need exists for a certain type of service

2 Following the credit crunch, banks often see start-ups as particularly high-risk and low-return customers

3 (i) Measuring performance objectively
 (ii) Stepping back from the day-to-day challenges to think strategically
 (iii) An eye for detail
 (iv) Loving what they do

4 (i) Profit maximising
 (ii) Profit satisficing

5 Accepts risk as a fact of business life but only takes on sensible risks, where the rewards outweigh the risk

6 Three from:
 (i) Finance providers
 (ii) Customers
 (iii) Staff
 (iv) Suppliers

7 Maximising profit may involve exploiting customers, destroying a business's reputation

8 Operating in an ethical way is likely to lead to extra costs

9 So the whole business is aiming to achieve the same thing

10 Specific, Measurable, Achievable, Realistic, Time-bound

11 (i) Survival
 (ii) Profit maximisation
 (iii) Sales maximisation
 (iv) Market share
 (v) Cost efficiency
 (vi) Employee welfare
 (vii) Customer satisfaction
 (viii) Social objectives

12 (i) Sole trader
 (ii) Partnership

13 £50,000

14 Two from:
 (i) Access to a tried and tested formula for business success
 (ii) Support from the franchisor in providing materials and fixtures and fittings
 (iii) Advice and training on all business functions
 (iv) Possibility of a national advertising campaign from the franchisor
 (v) A guaranteed local monopoly for that brand
 (vi) Easier access to loans as banks recognise the lower risk involved in starting as a franchisee

15 Two from:
   (i) The franchisee may feel frustrated at being unable to make decisions dictated by the franchisor
   (ii) There is likely to be an initial franchise fee to buy the licence (perhaps several hundred thousand pounds for the most popular franchised brands)
   (iii) The franchisor will also expect royalties, a percentage of revenue
16 The value of the next best option forgone when a business decision is made
17 The process of compromise between conflicting objectives when making a decision
18 Not all profit is retained for use within the business and in the early stages of a business, there may not have been time to build up sufficient retained profit to finance growth
19 (i) Interest payments
   (ii) Repayments of the original sum borrowed
20 Many entrepreneurs are successful because they keep an eye on absolutely everything happening in the business and make all the decisions. Passing decision-making power to others is therefore very hard for many

Chapter 7

1 (i) Loans
   (ii) Overdrafts
2 Share capital
3 (i) Starting up
   (ii) Growing
   (iii) Dealing with a cash flow problem
   (iv) Financing extra materials needed when a large order is received
4 (i) Sole trader
   (ii) Partnership
5 Shareholders
6 Two from:
   (i) Peer-to-peer funding
   (ii) Crowdfunding
   (iii) Share capital
   (iv) Business angels
   (v) Venture capital
7 If a sole trader does not pay up, their own personal assets can be used to settle debts; this is not possible with a limited company
8 Finance providers
9 The cash flow forecast
10 Monthly balance or net cash flow
11 Usually by using an overdraft facility

Chapter 8

1 Three from:
   (i) HR
   (ii) Production
   (iii) Cash flow forecast
   (iv) Profit forecasts
   (v) Budgets
2 (i) Consumer trends
   (ii) Economic variables
   (iii) Actions of competitors
3 With more time to pass before the forecast becomes reality, there is more time for changes in the business environment to mess up the accuracy of the forecast by affecting sales
4 (i) Sales volume
   (ii) Sales value
5 Costs that do not change in relation to output
6 Costs that change in direct proportion to output
7 This helps to spread fixed costs over more units of output, reducing the fixed costs carried by each unit
8 Fixed costs / (selling price – variable cost per unit)
9 The vertical distance between revenue and total costs.
10 (i) Fixed costs
   (ii) Total costs
   (iii) Total revenue
11 Current output minus break-even output
12 The break-even would be lower
13 The break-even point would be higher
14 Three from:
   (i) To prevent over-spending
   (ii) To provide a yardstick against which to measure performance
   (iii) To allow spending power to be delegated
   (iv) To motivate staff in a department
15 (i) Historical budgeting
   (ii) Zero-based budgeting
16 Adverse
17 Favourable

Chapter 9

1 (i) Gross profit
   (ii) Operating profit
   (iii) Profit for the year (net profit)
2 Profit is an absolute number – an amount of pounds – while profitability states profit as a percentage of sales revenue

3 Statement of comprehensive income (profit and loss account)
4 A product sold on credit generates revenue when it is sold, but no cash inflow until the customer pays at the end of the credit period
5 On a statement of financial position, otherwise known as a balance sheet
6 (a) (i) Current ratio
   (ii) Acid test ratio
   (b) (i) Current ratio should be 1.5:1
   (ii) Acid test should be around 1:1
7 Three from:
   (i) Selling under-used fixed assets such as equipment or machinery
   (ii) Raising more share capital
   (iii) Increasing long-term borrowing through loans
   (iv) Postponing planned investments
8 Without managing working capital effectively the firm may run out of cash
9 Failure to understand customers (poor research) can lead to poor decisions within the marketing mix: unwanted product features, poor pricing decisions, etc. These are likely to mean sales are poor, so cash inflows dry up
10 If the business is unable to meet demand because it does not have sufficient stock, customers are likely eventually to go to rivals, leading to a fall in sales
11 Three from:
   (i) Technological change
   (ii) Arrival of a new competitor
   (iii) Economic conditions
   (iv) The actions of banks

Chapter 10

1 Labour intensive
2 Efficiency includes consideration of wastage, not just speed
3 (i) Age and quality of machinery
   (ii) Skills and experience of staff
   (iii) Level of employee motivation
4 $\dfrac{\text{output}}{\text{number of workers}}$
5 $\dfrac{\text{current output}}{\text{maximum possible output}} \times 100$
6 Fixed costs are spread over more units, therefore fixed cost per unit will be lower
7 (i) No room to take on extra orders
   (ii) No time for maintenance or training
8 (i) Increase sales volume
   (ii) Reduce maximum capacity
9 (a) Sales will be 1,000 units, so total contribution = 1,000 × £250 = £250,000. Deduct fixed costs to calculate profit: £250,000 – £120,000 = £130,000
   (b) Sales will be 600 units, so total contribution = 600 × £250 = £150,000. Deducting fixed costs gives a profit of: £150,000 – £120,000 = £30,000
10 Buffer stock (or minimum stock)
11 The horizontal gap between the re-order level and the delivery arriving shows the time taken to deliver; also known as lead time
12 Three from:
   (i) Opportunity cost
   (ii) Cash flow problems
   (iii) Increased storage
   (iv) Increased financing costs
   (v) Increased wastage
13 Two from:
   (i) Lost customers
   (ii) Delays in production
   (iii) Lost reputation
14 With no buffer stock, production will halt if a delivery is delayed or contains faulty materials. This means the firm is highly dependent upon its suppliers delivering high-quality supplies with absolute reliability
15 If more is being produced, stock will be used more quickly, so the line representing the level of stock would fall more steeply if production levels increased
16 Quality inspectors
17 Cell
18 Quality circles
19 Production staff themselves
20 (i) Allows a price premium to be charged: if price can be pushed up more than cost per unit, profit margins will rise
   (ii) Helps to gain distribution with retailers: gaining extra distribution helps to boost revenues
   (iii) Creates brand loyalty and repeat purchase: may save on advertising spending, reducing the cost of marketing
   (iv) Can help to build a brand reputation that spreads to other products: may allow successful product launches, boosting revenues elsewhere in the portfolio, with relatively low product launch marketing costs

Chapter 11

1 Prices are rising more slowly
2 Consumers are likely to accept price increases without demand being damaged significantly
3 Spiced
4 Three from:
  (i) Demand falls as consumers' disposable incomes fall
  (ii) Consumers are less willing to borrow to buy
  (iii) Firms that owe money will face higher interest costs
  (iv) Investment is harder to justify as keeping the money in the bank is more attractive
5 Luxury goods (those with a positive income elasticity greater than 1)
6 (i) Increased costs
  (ii) Less wastage
7 The Health and Safety Executive
8 The employer
9 Two from:
  (i) Pricing
  (ii) Collusion
  (iii) Mergers
  (iv) Takeovers
10 Oligopoly
11 Two from:
  (i) Higher prices
  (ii) Less innovation
  (iii) Less choice
  (iv) Poorer service
12 Three from:
  (i) Branding
  (ii) Product features
  (iii) Product design
  (iv) Advertising
  (v) Technical innovations
13 A feature of a market that makes it hard for new entrants to successfully enter

Chapter 12

1 Aims are general goals that the business is currently seeking to achieve, while mission is likely to be more influenced by the founder's beliefs, explaining why the business exists.
2 (i) Purpose
  (ii) Strategy
  (iii) Values
  (iv) Standards and behaviours
3 A sense of mission held by all staff should help to motivate them to perform their jobs as well as possible and ensure that all staff are working in a co-ordinated way towards the same general goals.
4 Strategy is the broad plan for achieving objectives, which are the targets that the business sets itself.
5 (i) Brand
  (ii) Design
  (iii) Quality
6 Even at a low selling price, where rivals barely cover costs, a firm with lower unit costs can still generate a viable profit per unit by keeping costs low.
7

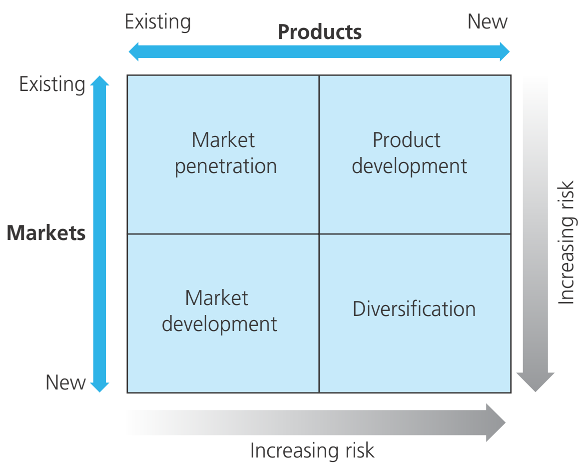

Figure 12.3 **Ansoff's Matrix and risk**

8 (a) Understanding the differing needs and wants of a new group of customers
  (b) Developing and successfully launching a new product that actually appeals to the target market
9 Risk increases as you move away from the top left of the matrix towards the highest risk, bottom right.
10 Three from:
  (i) Like for like sales
  (ii) Market share
  (iii) Capacity utilisation
  (iv) Unit cost
  (v) Brand recognition
  (vi) Staff turnover
11 Three from:
  (i) Demography
  (ii) New laws and regulations
  (iii) Technological factors
  (iv) Commodity prices
  (v) Economic factors

12 (i) Top down
(ii) Consultative

13 (i) Political
(ii) Economic
(iii) Social
(iv) Technological
(v) Legal
(vi) Environmental

14 Negatives — two from:
(i) Harder to access EU markets
(ii) Harder to fill lower paid job vacancies without free movement of labour
(iii) More expensive imported materials due to the reduction in the value of the pound
(iv) Less foreign direct investment to the UK from foreign multinationals

Positives — two from:
(i) EU laws will need to be replaced, which may allow the UK Parliament to relax legal responsibilities placed on firms in areas such as employment protection or environmental standards
(ii) A weaker pound may make exporting easier to non-EU markets for businesses who have previously only traded domestically
(iii) UK businesses will find it easier to compete on price with more expensive foreign imports due to the exchange rate shift

15 Opportunities and Threats

16 As the external environment changes, so the forces are almost continually shifting in favour of or against a business. It should therefore ensure that these shifts are not overlooked before a strategic response can be planned.

17 Three from:
(i) Patents and technical knowhow of staff
(ii) Strong brand identity and customer loyalty
(iii) High costs to customers of switching supplier
(iv) Substantial network infrastructure

18 Competitive rivalry = low
Threat of new entrants = low
Buying power of customers = low
Selling power of suppliers = low
Threat of substitutes = low

Chapter 13

1 (i) Purchasing
(ii) Managerial
(iii) Technical

2 (i) Communication
(ii) Motivation
(iii) Co-ordination

3 Three from:
(i) Increase profitability
(ii) Achieve economies of scale
(iii) Increase market power over customers and suppliers
(iv) Increase market share
(v) Brand recognition

4 There is likely to be less need to secure external funding, meaning that retained profit — probably the safest source of finance — may be sufficient to finance organic growth

5 Inorganic growth

6 (i) Predictability leading to loss of some staff
(ii) Failing to fully exploit short-lived opportunities
(iii) The danger of falling behind rivals in terms of scale

7 (i) Cost synergies
(ii) Increased market power
(iii) Diversification

8 (a) Forward vertical integration
(b) Horizontal integration
(c) Backward vertical integration
(d) Conglomerate integration
(e) Merger (horizontal integration)

9 When the cost of borrowing (interest payable) is higher than the returns generated by the takeover

10 Two from:
(i) Survival (lower fixed costs)
(ii) Cost efficiency (may be easier to track waste and avoid diseconomies of scale)
(iii) Employee welfare (sense of belonging)
(iv) Customer satisfaction
(v) Social objectives (especially if locally focused)

11 Focused differentiation

12 Staff will feel a sense of belonging, motivating them to do their best for the business

Chapter 14

1 The underlying trend

2 Extrapolation

3 The business should be able, once staff rotas have been planned, to use the number of hours staff are expected to work to see what level of sales that should generate

4 Payback

5 Net present value

6

Year	Net cash flow	Discount factor	Present value
0	(120,000)	**1**	**(120,000)**
1	50,000	**0.91**	**45,500**
2	50,000	**0.83**	**41,500**
3	50,000	**0.75**	**37,500**

Payback = 2 years and 4.8 months

ARR = £150,000 – £120,000 = £30,000; £30,000/3 = £10,000; £10,000/£120,000 × 100 = 8.3%

NPV = £45,500 + £41,500 + £37,500 – £120,000 = £4,500

7 (a) Circles
(b) Squares

8 Multiply each expected return by the probability of each possible outcome

9 Node 3 expected value = £50; Node 2 expected value = £170; Node 1 expected value = £230. So choose option A

10 LFT — duration — EST

11 ESTs allow a clear date before which resources will not be needed. Thus all deliveries or resources required can arrive on the day the activity is scheduled to begin

12 B, D, F, G

Chapter 15

1 Three from:
(i) Relationship between plcs and the financial markets
(ii) Use of short-term measures as determinants of bonuses
(iii) Threat of takeover
(iv) Financial roots of many UK bosses

2 Three from:
(i) Inadequate expenditure on research and development
(ii) Accounting adjustments that inflate current earnings
(iii) A bias towards using profit for high dividend payments or to buy back shares, at the expense of investment
(iv) Adopting pay schemes for directors that focus on achieving short-term financial objectives
(v) A willingness to cut the workforce quickly, leading to high labour turnover and a loss of experience and skills that may be needed in the future
(vi) Ignoring long-term risks with products and services, such as shifts in consumer habits or potential obsolescence
(vii) A focus on takeovers to grow rather than the use of organic growth
(viii) A shortage of investment in image-building advertising
(ix) Minimal training budgets

3 Routine decisions

4 Three from:
(i) Aims or mission of the business
(ii) Behaviour of company directors
(iii) Attitude of senior management to risk
(iv) Recruitment and training procedures

5 (i) Power
(ii) Role
(iii) Task
(iv) Person

6 Three from:
(i) Self-interest
(ii) Different assessments of the need to change
(iii) Misunderstanding changes
(iv) Low tolerance to change

7 Internal — three from:
(i) Employees
(ii) Managers
(iii) Major shareholders

External — three from:
(i) Suppliers
(ii) Society
(iii) Government
(iv) Creditors
(v) Small shareholders
(vi) Customers

8 Regularly satisfying stakeholders helps to build a relationship with them so that when the business needs something from the stakeholder group (overtime from employees, an overdraft extension from the bank or quick delivery from suppliers) they may be more willing to help

9 (i) Replacing employees with machinery or robots
(ii) When discussing a pay rise or a change to working conditions

10 (i) The personal moral beliefs of the decision-maker
(ii) Corporate culture

11 (i) Risk
(ii) Reward

12 The gap between the amount executives receive and average pay levels within their organisation; this is a little more subtle than simply the size of CEOs' salaries

Chapter 16

1 What a business owns and owes and where the money came from
2 The financial performance of a business for a period, deducting different costs from revenue to calculate different types of profit (134 characters!)
3 Accumulated retained profits
4 (i) Staff, to see if the firm can afford a pay rise
(ii) Suppliers, to see if the firm should be offered credit
(iii) Bankers, to see if the firm is likely to be able to repay debt and handle interest payments
5 (a) Gross profit margin
(b) Gearing
(c) Acid test (or current ratio)
6 (i) Pay back loans
(ii) Increase reserves by retaining more profit or selling more shares
7 (a) 1.5
(b) 1
8 Over 50%
9 (i) Improve operating profit without acquiring more long-term finance
(ii) Reduce capital employed without damaging profit
10 It appears that labour productivity is being driven up by making the lives of the workers less pleasant — perhaps with fewer breaks or longer hours — causing increased days off and leavers
11 Two from:
(i) Employee share ownership
(ii) Financial rewards
(iii) Perhaps a loyalty bonus
(iv) Consultation strategies
(v) Empowerment strategies
12 If new staff are bringing in new ideas or ways of working this could have led to the increase in productivity. Staff with new, more relevant skills may have arrived, capable of working more efficiently

Chapter 17

1 Changes in the market
2 Three from:
(i) Changes in organisational size
(ii) Poor business performance
(iii) New ownership
(iv) Transformational leadership
3 (a) Suppliers are likely to gain extra revenue from larger orders
(b) Staff will be busier, but perhaps happier with increased job security and possibly the chance for overtime pay or promotion
4 (i) Staff must understand the need for change
(ii) Staff must understand what the post-change world will be like
(iii) Staff must understand how the organisation will make the changes
5 The culture of a young technology firm may be more likely to accept change as a feature of their market and without long traditions of how things are done, in contrast to a long-established firm in a market that experiences less radical change at a slower rate
6 (i) Education and communication
(ii) Participation and involvement
(iii) Negotiation and agreement
7 (i) Identify risks
(ii) Quantify cost
(iii) Allocate probability
8 (i) Loss of key staff
(ii) IT systems failure
(iii) Natural disasters
9 Having time to think things through leads to better decisions. Meanwhile, resources which may be required to ensure business continuity can be secured in advance

Chapter 18

1 (i) Willingness to accept inward investment from multinationals
(ii) More enterprising behaviour from local businesses
(iii) More stable government
(iv) Easier access to export markets due to improvements in communication and transport: globalisation
2 (i) Increased domestic competition
(ii) Offshoring
(iii) New export markets
3 (i) GDP per capita
(ii) Health
(iii) Education
4 1,300 million (or 1.3 billion)
5 Three from:
(i) Government spending
(ii) Attracting FDI
(iii) Export growth
(iv) Low wages

(v) Manufacturing sector
(vi) Weak currency
(vii) Opening up the economy to foreign investment; a political move

6 Two from:
(i) Poor infrastructure
(ii) Democracy
(iii) Inflation

7 (a) Still scope for the service sector to grow rapidly
(b) Better historical links with India may help UK firms do a better job than they have done in China

8 Japan and China

9 (i) Corruption
(ii) Poor infrastructure
(iii) Investor concern about stability

10 Each country stops trying to make the products and provide services to which it is not suited. It must therefore buy these from other countries. To pay for this, it will need to export its specialisms

11 Import: the money is leaving the UK

12 Three from:
(i) Lower operating costs
(ii) Access to natural resources
(iii) Lower transport costs
(iv) Avoiding trade barriers
(v) Avoiding problems of exporting

13 (i) Quotas
(ii) Tariffs
(iii) Regulation

14 (i) Companies that rely on imported materials and components will enjoy lower costs, enabling them to reduce prices to compete with cheaper imported rivals
(ii) Due to the bilateral nature of trade agreements, liberalisation can lead to increased export opportunities with the removal of barriers in the other direction

15 (i) More efficient engines
(ii) Larger boats, trucks and planes
(iii) The internet

16 (i) Declining industries facing job losses
(ii) Industries in their infancy

17 (i) Tariffs, legislation or quotas should cut imports
(ii) Subsidies may boost exports

18 Three from:
(i) Managers
(ii) Staff
(iii) Shareholders
(iv) Suppliers
(v) Local communities

19 Three from:
(i) EU (Europe)
(ii) NAFTA (North America)
(iii) ASEAN (South East Asia)
(iv) MERCOSUR (South America)
(v) East African Community (East Africa)

20 Operating within a free trade area turns the whole free trade area into your domestic market, thus boosting potential market size, making significant growth in scale more feasible

21 Two from:
(i) Harmonisation of laws
(ii) Free movement of people
(iii) Free movement of capital

Chapter 19

1 (i) Economies of scale
(ii) Opportunities to outsource or offshore
(iii) Risk spreading

2 (i) Saturated home market
(ii) Arrival of a new competitor
(iii) Extending the product life cycle

3 Three from:
(i) Growth
(ii) Survival
(iii) Cost minimisation
(iv) Risk spreading

4 High end luxury goods

5 Three from:
(i) Days to start a business
(ii) Days to wait for a construction permit
(iii) Days to get electricity
(iv) Total tax rate as a % of profit
(v) Days to import an item
(vi) Days to enforce a contract

6 Three from:
(i) Roads
(ii) Railways
(iii) Running water
(iv) Reliable electricity
(v) WiFi and broadband connection

7 Labour intensive

8 India

9 Three from:
(i) Job creation
(ii) Extra tax revenues

(iii) A boost for local suppliers
(iv) Increasing skill levels among local labour force
(v) Potential for a positive impact on the balance of payments

10 A merger involves a change of ownership: a new business is created; a joint venture means that two firms maintain separate identities, but work together

11 In such circumstances, allegations of unethical treatment of staff could be made. A takeover ensures the business has absolute control over what happens at the supplier's site, something that is not the case with a joint venture

12 Working with a local partner, who is likely to have a deep understanding of the new market, ensures that a lack of market knowledge is avoided

13 Those that import raw materials

14 (i) Improve productivity
(ii) Outsourcing
(iii) Offshoring

15 Four from:
(i) Design
(ii) Functions
(iii) Engineering
(iv) Performance
(v) Branding
(vi) Advertising
(vii) Sponsorship
(viii) Celebrity endorsement

Chapter 20

1 Polycentric

2 Glocalisation

3 (i) Economic factors
(ii) Weather factors
(iii) History and tradition

4 Top end luxury goods

5 Local knowledge and experience among decision-makers

6 (i) Cultural differences
(ii) Different tastes
(iii) Language
(iv) Unintended meanings
(v) Inappropriate translations
(vi) Inappropriate branding and promotion

7 Three from:
(i) Food
(ii) Drink
(iii) Fashion
(iv) Music

8 Selling

Chapter 21

1 Multinationals may have internal policies that require them to operate at higher environmental standards than local laws require. This may mean that domestic businesses do more damage to the environment

2 Different rates of corporation tax apply in different countries

3 (i) Draining local overqualified staff
(ii) Forcing local firms out of business, creating job losses
(iii) Failure to maintain standards of working conditions may see them slipping back to local, low standards

4 Should multinationals:
(i) pay workers in developing countries more
(ii) offer better working conditions
(iii) be responsible for how staff are treated by their suppliers?

Should consumers in the developed world be uneasy about wearing clothes made in exploitative conditions?

5 (i) Emissions
(ii) Waste disposal

6 The moral code governing expectations as to how business should be conducted

7 (a) Major shareholders, government
(b) Pressure groups, customers

8 Two from:
(i) Safety concerns
(ii) Short-term mineral extraction
(iii) Weakening of local cultures
(iv) Lack of commitment to the host country

9 Tax and takeovers